

Information Bulletin

15th COAG Energy Council Meeting

24 November 2017

Energy Consumers Australia attends, as an observer, the meetings of [the Council of Australian Governments \(COAG\) Energy Council](#) (the Council). The three market institutions – the Australian Energy Market Commission (AEMC), the Australian Energy Regulator (AER) and the Australian Energy Market Operator (AEMO) – also attend as observers.

This Information Bulletin draws on the [communiqué](#) issued by the Council on 24 November 2017 and publicly available information about the matters discussed at the meeting. Extracts from the communiqué are provided in text boxes.

The focus of the meeting was to discuss efforts to ensure energy remains affordable and reliable as the energy sector transforms.

1. The National Energy Guarantee

Dr Kerry Schott AO, Chair of the Energy Security Board (ESB), presented the National Energy Guarantee and the accompanying modelling report. All jurisdictions voting on the Guarantee supported progressing further extensive work on the design, including consultation in early 2018, except South Australia and the Australian Capital Territory. South Australia and the Australian Capital Territory asked COAG Energy Council to model the Emissions Intensity Scheme and the Clean Energy Target alongside the Guarantee and Council declined. The Council will consider the design of the Guarantee following work undertaken by the ESB in April 2018. All jurisdictions will be involved in undertaking further analysis with the ESB. The ESB will consult with stakeholders through this process.

Ministers formally amended the Terms of Reference for the ESB including that it only undertake work as directed by the COAG Energy Council.

On 8 August 2017, the Council announced the establishment of the Energy Security Board (ESB). The creation of the ESB was a recommendation of the Independent Review into the Future Security of the National Electricity Market (the Finkel Review) [Blue Print for the Future](#) (Recommendation 7.2). Dr Kerry Schott AO was appointed the Independent Chair and Clare Savage the Deputy Chair of the ESB, joining the Chair of the AER, Chair of the AEMC and CEO of AEMO as members. More information about Dr Schott and Ms Savage is provided in the [Council's media release](#).

On 17 October 2017, the Australian Government [announced](#) that it would be proposing a new policy for the future of electricity investment and emissions reduction, following [advice from the ESB](#). The policy, named the National Energy Guarantee (NEG), seeks to address the energy policy 'trilemma', that is meeting emissions reduction and reliability targets at lowest cost to consumers.

The NEG places obligations on electricity retailers to provide their customers with generation output that meets stipulated dispatchability (i.e. reliability) and emissions intensity levels. Retailers would be able to make secondary trades with one another to meet their obligations, as shown in [this infographic](#). The proposal is for the emissions obligation to commence in 2020, the year that the Renewable Energy Target stops capturing new investment. The ESB proposes that the NEG would be implemented through changes to the National Electricity Law (NEL) and National Electricity Rules (NER).

Dr Schott explained the NEG at length in a [webinar](#) on 10 November 2017 and further information about the NEG is available [here](#).

On 27 October 2017, the Hon. Josh Frydenberg MP, Minister for the Environment and Energy, [wrote to the ESB](#) requesting that it undertake further modelling on the NEG, exploring the impact on wholesale and retail electricity prices, as well as on the generation mix compared to a business as usual scenario. The outcome of that work, conducted by the AEMC, was considered by Energy Ministers at their 24 November 2017 meeting. The modelling has been [reported by the media](#).

The Council has agreed that further work be done on the development of the NEG, including consultation with external stakeholders. The NEG will be considered by the Council at its next meeting, in April 2018.

The Communique notes South Australia and the Australian Capital Territory proposed that further modelling be undertaken on the NEG, and also two other mechanisms to promote investment in clean generation, an emissions intensity scheme and a clean energy target. The Council did not agree to pursue this extra modelling.

The Council did agree to amend the ESB's Terms of Reference to stipulate that the ESB can only be directed to undertake work by the Council, not by an individual jurisdiction.

Energy Consumers Australia will be facilitating teleconferences to share information and perspectives on the NEG and to contribute to its development. If you would like to be involved or receive more information, please email oliver.derum@energyconsumersaustralia.com.au.

2. The National Electricity Market (NEM)

Ministers have been updated on preparations for security of supply this summer following a report on the actions underway from Ms Audrey Zibelman, the Chief Executive Officer of the Australian Energy Market Operator.

Dr Schott also presented the inaugural Health of the National Electricity Market Report which highlighted the risks and challenges facing the NEM. The Council commends the work of the Board, given the short time-frame available to stand-up the organisation and prepare the report.

Mr Rod Sims, the Chair of the Australian Competition Consumer Commission, provided an overview of the interim reports for the Electricity Supply and Prices Inquiry and the Gas Inquiry.

The Council received an update on three important processes. Firstly, AEMO updated Ministers on preparations for managing periods of very high electricity demand over the coming summer. AEMO's extensive preparation follows heatwaves in February 2017 that led to load shedding in South Australia (February 8) and New South Wales (February 9-10). Further information about AEMO's preparations is available in its [Summer Readiness Report](#), published on 28 November 2017. Ahead of summer, AEMO has also launched a new information portal, [AEMO Energy Live](#), designed to be an "independent, consumer friendly source of information and news" about the system and encourage "an informed energy conversation" (see AEMO's Summer Readiness Report).

Secondly, the Council received the first annual Health of the NEM Report from the ESB. The Health of the NEM Report was recommended in the Finkel Blueprint (Recommendation 7.6). The Blueprint states that the Health Report should describe:

- the performance of the system;
- performance against whole-of-system key performance indicators;
- opportunities for market development including actual emerging risks; and
- progress against a Statement of Expectations.

The Blueprint also recommends that the Health of the NEM Report comment on:

- *"the impact of changes in the market on the price and availability of long-term retail contracts for commercial and industrial customers"* (Recommendation 6.2); and
- *"affordability issues and proactively identify emerging issues"* (Recommendation 6.4).

The Health of the NEM Report has not yet been made public.

Finally, the Council received an update from the Chair of the Australian Competition and Consumer Commission (ACCC) about the major electricity and gas market inquiries it is conducting:

- The [Preliminary Report](#) for the Inquiry into Electricity Supply and Prices, which was released by the Treasurer on 16 October 2017. The report thoroughly dissected the recent history of electricity in the National Electricity Market (NEM) and provides detailed analysis of the contribution that wholesale, network, retail and green scheme costs made to the total price increase of the last decade. The report also highlights concerns about a long list of electricity market issues, including the state of retail and wholesale competition, the ongoing inefficiency of network overinvestment and the impact of current poor gas market outcomes. Energy Consumers Australia welcomed the report in a media release, headlined '[ACCC puts electricity sector on notice](#)'.
- The ACCC's [Interim Report](#) for its Gas Inquiry 2017-2020. The Inquiry is a broad ranging examination of the supply of, and demand for, wholesale gas in Australia and includes regular reporting on supply and pricing over three years. The Interim Report flagged the possibility of shortfalls in the east coast gas market in 2018.

3. Gas Market Reform

Dr Mike Vertigan AC informed Council of the progress on the package of capacity trading reforms including standardisation of gas transportation contracts, proposed design of the capacity trading platform and proposed design of the secondary capacity trading reporting framework. Extensive consultation was undertaken on the design and implementation of the recommendations and stakeholders were broadly supportive of the design of these reforms. These actions will improve the efficiency of transportation capacity markets and reduce costs for market participants.

Ministers noted the additional gas to be supplied under the Australian Government's agreement with east coast LNG exporters means that export restrictions under the Australian Domestic Gas Security Mechanism will not be needed for 2018.

The Council discussed the importance of delivering actions to support further commercial exploration and development of offshore gas resources and underground gas storage to deliver reliable and affordable gas supplies for domestic gas users.

The Council committed to a wide-ranging [Gas Market Reform Package](#) in August 2016, seeking to address (amongst other things) problems in wholesale gas trading and transportation markets, which were negatively impacting gas and electricity prices for consumers. The reform package comprises four priority areas (gas supply, market operation, gas transportation and market transparency) and 15 reform measures. The Council established the [Gas Market Reform Group](#) (GMRG) to progress this work, of which Dr Vertigan is the Independent Chair.

At the 24 November 2017 meeting, the Council [agreed](#) to implement the GMRG's [final recommendations](#) in relation to standardisation, capacity trading platform design and the associated reporting framework.

Over recent months, the Australian Government has made clear that it is prepared to restrict the export of liquified natural gas (LNG) if Australian customers were not able to access supply and the necessary legal preparations for doing so were put in place. In September, there was extensive [media and political discussion](#) about whether the Prime Minister would 'pull the trigger' on the Domestic Gas Security Mechanism. Gas suppliers subsequently [committed](#) to find the extra supply required to meet forecast demand, meaning export restrictions were not implemented. This was noted by the Council.

4. Appointments

Council agreed to the appointment of two new Commissioners to the Australian Energy Market Commission. Western Australia was asked to provide an additional nominee prior to the Council's next meeting.

Expanding the number of AEMC Commissioners from three to five was Recommendation 6.1 in the 2015 [Review of Governance for Australian Energy Markets](#). The Council accepted Recommendation 6.1 as part of its [response](#) to the Governance Review in December 2015.

5. Media comments and coverage

A number of Ministers have issued media statements and offered comments about the meeting.

- Minister Frydenberg - [Turnbull Government welcomes progress on the National Energy Guarantee at COAG Energy Council](#)
- Minister Koutsantonis - [South Australia to model alternative energy policies](#)
- Minister D'Ambrosio - [National Energy No Such Guarantee](#)
- Minister Rattenbury - [ACT demands major changes to NEG](#)
- Minister Harwin (radio interview) - [NSW urges other states to support Federal Government's National Energy Guarantee](#)

Other media statements issued about the meeting include:

- The Australian Industry Group - [Ai Group welcomes COAG progress on National Energy Guarantee](#)
- The Australia Institute - [Choice Cuts - The advantages of cutting emissions in the electricity sector](#)
- Clean Energy Council - [New renewable energy will lower power prices: Government analysis](#)
- Australian Pipeline & Gas Association - [Details needed on National Energy Guarantee](#)